

INSURANCE CODE

TITLE 6. ORGANIZATION OF INSURERS AND RELATED ENTITIES

SUBTITLE B. ORGANIZATION OF REGULATED ENTITIES

CHAPTER 829. CONVERSION OF RECIPROCAL OR INTERINSURANCE EXCHANGE
TO STOCK COMPANY THROUGH CREATION OF A MUTUAL HOLDING COMPANY

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 829.001. DEFINITIONS. In this chapter:

(1) "Attorney in fact" has the meaning assigned by Section [942.001](#).

(2) "Board of directors" means, as to an exchange, the board of directors, board of trustees, subscriber advisory committee, or other governing body appointed or elected by the subscribers of an exchange.

(3) "Conversion plan" means a plan adopted under this chapter to convert an exchange to a stock insurance company and form a mutual holding company to hold, directly or indirectly, shares of the resulting company.

(4) "Converting exchange" means an exchange that is converting to a stock insurance company under this chapter.

(5) "Eligible member" means a member of a converting exchange whose policy is in force on the date that the converting exchange's board of directors adopts a conversion plan.

(6) "Effective date" means the effective date of a conversion plan in accordance with Section [829.108](#).

(7) "Exchange" has the meaning assigned by Section [942.001](#).

(8) "Intermediate holding company" means a holding company organized under the laws of this or another state that:

(A) is a subsidiary of a mutual holding company formed to reorganize an exchange; and

(B) directly or through a subsidiary intermediate holding company, owns at least a majority of the voting shares of the capital stock of the resulting company.

(9) "Member" means, as to an exchange, a subscriber of an exchange.

(10) "Mutual holding company" means a holding company based on a mutual plan and formed in connection with the conversion of an exchange to a stock insurance company under this chapter.

(11) "Participating policy" means a policy issued by an exchange that grants the policyholder the right to receive policy dividends if declared by the exchange.

(12) "Resulting company" means a stock insurance company resulting from the conversion of an exchange under this chapter.

(13) "Subscriber" has the meaning assigned by Section [942.001](#).

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.002. AUTHORITY TO CONVERT THROUGH CREATION OF A MUTUAL HOLDING COMPANY. (a) An exchange may reorganize by converting to a stock insurance company and forming a mutual holding company to hold, directly or indirectly, shares of the resulting company or intermediate holding company in accordance with this chapter.

(b) A converting exchange may not engage in the business of insurance as a stock insurance company until it complies with the requirements of this chapter.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.003. RIGHTS AND PRIVILEGES OF RESULTING COMPANY; LAWS APPLICABLE. Except as provided by this chapter, the resulting company:

(1) may exercise only the rights and privileges of a stock insurance company; and

(2) is subject to:

(A) all of the requirements and rules imposed on stock insurance companies organized under this code; and

(B) the laws of this state relating to the regulation or supervision of insurance companies.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1,

eff. June 15, 2007.

Sec. 829.004. MUTUAL HOLDING COMPANY; LAWS APPLICABLE. (a) Except as provided by this chapter, a mutual holding company is considered an insurer subject to this chapter and Chapter [883](#).

(b) The commissioner has jurisdiction over a mutual holding company organized under this chapter to ensure that member interests are protected.

(c) The mutual holding company is automatically a party to a delinquency proceeding under Subtitle C, Title 4, involving an insurance company that, as a result of a reorganization under this chapter, is a direct or indirect subsidiary of the mutual holding company. In any proceeding described by this subsection involving the resulting company, the assets of the mutual holding company are considered assets of the resulting company for purposes of satisfying the claims of the resulting company's policyholders.

(d) A mutual holding company that results from a reorganization of an exchange must be organized under Sections [883.051](#), [883.052](#), [883.054](#), and [883.056](#). The articles of incorporation of the mutual holding company, and any amendments to those articles, are subject to approval of the commissioner in the same manner as those of a mutual insurance company.

(e) The mutual holding company may not dissolve or liquidate without the approval of the commissioner.

(f) A mutual holding company formed under a conversion plan is not subject to:

(1) Article 2.11B, Texas Non-Profit Corporation Act (Article 1396-2.11B, Vernon's Texas Civil Statutes);

(2) Section B, Article 2.23, Texas Non-Profit Corporation Act (Article 1396-2.23, Vernon's Texas Civil Statutes);

(3) Section C, Article 2.23A, Texas Non-Profit Corporation Act (Article 1396-2.23A, Vernon's Texas Civil Statutes); or

(4) Sections [22.158](#), [22.351](#), and [22.353](#)(b), Business Organizations Code.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1,

eff. June 15, 2007.

Sec. 829.005. CONFLICT OF INTEREST. (a) Except as provided by a conversion plan approved by the commissioner or by this section, the following individuals may not receive a fee, commission, stock distribution, stock subscription rights, or other consideration, other than that individual's usual salary or compensation for aiding, promoting, assisting, or participating in a conversion under this chapter:

(1) a director, officer, agent, or employee of a converting exchange or the exchange's attorney in fact; or

(2) the attorney in fact if the attorney in fact is an individual.

(b) Subsection (a) does not apply to consideration received in the individual's capacity as a member.

(c) This section does not prohibit the payment of reasonable fees and compensation to an attorney, accountant, or actuary for professional services performed by that person, without regard to whether the person is also a director or officer of the converting exchange or its attorney in fact.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.006. LIMITATION ON ACTIONS. (a) Except as provided by Subsection (b), an action challenging the validity of or arising out of acts taken or proposed to be taken regarding a conversion plan under this chapter must be commenced not later than the 30th day after the date the conversion plan is approved by the commissioner.

(b) An action challenging the validity of or arising out of acts taken or proposed to be taken regarding a conversion plan that contemplates a public offering of debt or equity registered under the federal Securities Act of 1933 (15 U.S.C. Section 77a et seq.), or a similar law of a foreign jurisdiction, must be commenced not later than the 60th day after the date the conversion plan is approved by the commissioner.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1,

eff. June 15, 2007.

Text of section effective until January 01, 2022

Sec. 829.007. SALE OF SECURITIES. (a) A sale, issuance, or offering of securities under this chapter is exempt from the registration and licensing provisions of The Securities Act (Article [581-1](#) et seq., Vernon's Texas Civil Statutes).

(b) An officer, director, or employee of an exchange, an intermediate holding company, a mutual holding company, or a resulting company who participates in a conversion under this chapter is exempt from the registration and licensing provisions of The Securities Act (Article [581-1](#) et seq., Vernon's Texas Civil Statutes). A person may not receive compensation, other than that person's usual salary or compensation, for services performed under the exemption provided by this subsection.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Amended by:

Acts 2019, 86th Leg., R.S., Ch. 491 (H.B. [4171](#)), Sec. 2.31, eff. January 1, 2022.

Text of section effective on January 01, 2022

Sec. 829.007. SALE OF SECURITIES. (a) A sale, issuance, or offering of securities under this chapter is exempt from the registration and licensing provisions of The Securities Act (Title 12, Government Code).

(b) An officer, director, or employee of an exchange, an intermediate holding company, a mutual holding company, or a resulting company who participates in a conversion under this chapter is exempt from the registration and licensing provisions of The Securities Act (Title 12, Government Code). A person may not receive compensation, other than that person's usual salary or compensation, for services performed under the exemption provided by this subsection.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Amended by:

Acts 2019, 86th Leg., R.S., Ch. 491 (H.B. [4171](#)), Sec. 2.31, eff. January 1, 2022.

SUBCHAPTER B. MUTUAL HOLDING COMPANY STRUCTURE

Sec. 829.051. CAPITAL STOCK HELD BY MUTUAL HOLDING COMPANY.

(a) In this section, "majority of the voting shares of the capital stock" means shares of the capital stock of a company that carry the right to cast a majority of the votes entitled to be cast by all of the outstanding shares of the capital stock of the company on all matters submitted to a vote of the shareholders of the company.

(b) All of the initial shares of the capital stock of the resulting company shall be issued to the mutual holding company or to an intermediate holding company.

(c) The mutual holding company shall at all times own a majority of the voting shares of the capital stock of the resulting company or of an intermediate holding company. The requirements of this subsection may be satisfied by indirect ownership through one or more intermediate holding companies in a corporate structure approved by the commissioner.

(d) Except with the consent of the commissioner, the mutual holding company or intermediate holding company may not convey, transfer, assign, pledge, subject to a security interest or lien, encumber, or otherwise hypothecate or alienate the majority of the voting shares of the capital stock that is required to be owned under Subsection (c).

(e) An act of the mutual holding company or intermediate holding company that violates Subsection (d) is void in inverse chronological order from the date of the conveyance or activity as to the shares necessary to constitute a majority of the voting shares of the capital stock.

(f) The remaining minority portion of the voting shares of capital stock of the resulting company, or of an intermediate holding company, may not be assigned, transferred, or pledged to any officer, director or employee of the converting exchange, or persons acting in concert with such persons, without also offering

a similar opportunity to participate to all eligible members as required by Section [829.053](#)(g).

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.052. LIMITATION ON ACQUISITION OF CAPITAL STOCK.

(a) The conversion plan must provide that a person or group of persons acting in concert, other than the mutual holding company or an intermediate holding company, may not acquire, in a public or private offering or through an exercise of stock subscription rights, more than 10 percent of the capital stock of the resulting company unless the acquisition of the stock or stock subscription rights is approved in advance by the commissioner.

(b) Subsection (a) does not apply to an entity that purchases and retains at all times a majority of the voting shares of the capital stock of the resulting company as part of the conversion plan approved by the commissioner.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.053. DIRECTORS AND OFFICERS. (a) Except as otherwise provided by this section, the conversion plan must provide that a director or officer of the converting exchange, or a person acting in concert with the director or officer, may not acquire, without the permission of the commissioner, any shares of the capital stock of the resulting company, or the shares of the capital stock of another corporation that is participating in the conversion plan, before the third anniversary of the effective date of the conversion. This subsection does not prohibit the director or officer from:

- (1) acquiring capital stock through a broker-dealer;
- (2) making purchases through the exercise of stock subscription rights received under the conversion plan; or
- (3) participating in a stock benefit plan permitted by Section [829.054](#) or approved by the eligible members under Section [829.107](#).

(b) A conversion plan may provide that the directors and

officers of the converting exchange may receive, without payment, nontransferable subscription rights to purchase shares of the capital stock of the resulting company or the shares of the capital stock of another corporation that is participating in the conversion plan.

(c) The aggregate number of shares that may be purchased by directors and officers under Subsection (b) may not exceed:

(1) 35 percent of the total number of shares to be issued for the resulting company if the total assets of the converting exchange are less than \$50 million;

(2) 25 percent of the total number of shares to be issued for the resulting company if the total assets of the converting exchange are more than \$500 million;

(3) five percent of the total number of shares to be issued for the resulting company if the total assets of the converting exchange are more than \$1 billion; or

(4) one percent of the total number of shares to be issued for the resulting company if the total assets of the converting exchange are more than \$10 billion.

(d) For a converting exchange with total assets between \$50 million and \$500 million, inclusive, the maximum percentage of the total number of shares that may be purchased shall be interpolated from amounts provided under Subsection (c).

(e) A conversion plan must provide that a director or officer of the converting exchange may not sell stock purchased under the conversion plan before the first anniversary of the effective date of the conversion.

(f) Notwithstanding Subsection (e), a conversion plan may provide for the purchase or redemption of stock in the event that a director or officer no longer serves as a director or officer of, or no longer is associated with, the resulting company during the period described by Subsection (e).

(g) If, as part of the conversion, any director or officer of the converting exchange, the mutual holding company, or an intermediate holding company receives more than one percent of the shares of the capital stock of the resulting company, or other valuable consideration, which is paid from the surplus of the

converting exchange, each eligible member also is entitled to receive an amount of the converting exchange's surplus on hand on the effective date of the conversion computed in the same manner as the amount received by the director or officer, or as otherwise provided in the conversion plan approved by the commissioner.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.054. SUBSCRIPTION RIGHTS; TAX-QUALIFIED EMPLOYEE BENEFIT PLAN. The conversion plan may allocate to a tax-qualified employee benefit plan nontransferable subscription rights to purchase not more than 10 percent of the capital stock of the resulting company.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

SUBCHAPTER C. PLAN ADOPTION AND APPROVAL

Sec. 829.101. PLAN ADOPTION. (a) To convert under this chapter an exchange must adopt a conversion plan consistent with this chapter by the affirmative vote of at least two-thirds of the members of its board of directors or, if the exchange does not have a board of directors, by approval of the attorney in fact. The proposed articles of incorporation of the resulting company and the mutual holding company must be exhibits to the conversion plan.

(b) For a conversion plan to take effect:

(1) the commissioner must approve the conversion plan; and

(2) the eligible members must approve the conversion plan and adopt the articles of incorporation of the resulting company and the mutual holding company.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.102. AMENDMENTS; WITHDRAWAL OF PLAN. Before a conversion plan takes effect, a converting exchange may amend or withdraw the plan by the affirmative vote of at least two-thirds of

the members of its board of directors or, if the exchange does not have a board of directors, by approval of the attorney in fact. The written consent of the commissioner is required for any amendment to a conversion plan adopted after the commissioner has approved the plan under Section [829.106](#).

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.103. FILING OF PLAN AND RELATED DOCUMENTS WITH COMMISSIONER; COMMISSIONER'S POWERS AND DUTIES. (a) Not later than the 90th day after the date on which a converting exchange's board of directors adopts a conversion plan, the converting exchange shall file with the commissioner:

- (1) a copy of the conversion plan;
- (2) the form of notices required by Section [829.104](#);
- (3) the form of proxy to be solicited from eligible members under Section [829.107](#)(a);
- (4) the form of notice required by Section [829.153](#) to persons whose policies are issued after adoption of the conversion plan but before the effective date of the conversion plan; and
- (5) the proposed articles of incorporation of the resulting company and the mutual holding company.

(b) The converting exchange shall promptly provide any other information requested by the commissioner that the commissioner considers necessary to consider the conversion plan. Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.104. NOTICE TO ELIGIBLE MEMBERS; COMMENTS. (a) The converting exchange shall give eligible members at least 30 days' written notice of the members' meeting to vote on the conversion plan and advising of the members' right to comment on the plan to the commissioner and the converting exchange, including a description of the procedure to be used in making comments. Notice to the members of the proposed vote on the conversion plan must provide clear and conspicuous language apart from other meeting materials and provide a disclosure statement of the distribution of

surplus or stock to directors and officers of the converting exchange, if any.

(b) If the commissioner determines to hold a hearing on the plan, the commissioner must approve the notice of hearing and notify the converting exchange not later than the 45th day following the first day on which all the documents required under Section 829.103 are filed with the commissioner. The converting exchange shall send to eligible members the commissioner's notice of the hearing at least 30 days before the date set for the hearing. The commissioner must approve the content and print layout of the hearing notice before the converting exchange sends notice of the hearing to eligible members. Notice of the hearing may be made through publication in the Texas Register.

(c) The notices required by Subsections (a) and (b) may be combined in a single mailing. The notice or notices must be sent to the member's last known address, as shown on the converting exchange's records. The notice of the members' meeting must:

- (1) describe the proposed conversion plan; and
- (2) inform the member of the member's right to vote on the conversion plan.

(d) If the notice of the meeting to vote on the conversion plan is combined with a notice of the converting exchange's annual meeting of members, the notice of the proposed vote on the conversion plan must be clear and conspicuous and set apart from other meeting materials. A notice that is approved in advance by the commissioner is deemed to be in full compliance with the requirements of this subsection.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. 1056), Sec. 1, eff. June 15, 2007.

Sec. 829.105. SUBSTANTIAL COMPLIANCE WITH NOTICE REQUIREMENTS. If the converting exchange in good faith substantially complies with the notice requirements of this chapter, the converting exchange's failure to send a member the required notice does not impair the validity of an action taken under this chapter.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. 1056), Sec. 1,

eff. June 15, 2007.

Sec. 829.106. APPROVAL OF PLAN BY COMMISSIONER. (a) The commissioner shall approve a conversion plan if the commissioner determines that:

- (1) the plan complies with this chapter;
- (2) the plan's method of allocating stock subscription rights, stock transfers, or other value, if any, is fair and equitable; and
- (3) the resulting company would satisfy the requirements applicable to a domestic stock insurance company for a certificate of authority on the date of the determination.

(b) Except as otherwise provided by this section, the commissioner shall approve or disapprove a conversion plan not later than the 90th day after the first day on which all the documents required under Section 829.103 are filed with the commissioner.

(c) The commissioner may extend the time for decision by an additional 30 days on written notice to the converting exchange. Except as provided under Subsection (e) or (f), the commissioner may not extend the time for decision beyond that 30-day period.

(d) The commissioner shall immediately give written notice to the converting exchange of the commissioner's decision and, if the commissioner disapproves the plan, a detailed statement of the reasons for the disapproval.

(e) The commissioner may retain, at the converting exchange's expense, a qualified expert who is not a member of the commissioner's staff to assist the commissioner in reviewing whether the conversion plan meets the requirements for approval by the commissioner or the value of the distribution of surplus of the resulting company to the officers and directors of the converting exchange, if any. If the commissioner retains a qualified expert under this subsection, the commissioner may extend the period for decision by an additional 90 days beyond the initial 90-day period specified in Subsection (b).

(f) If the conversion plan contemplates a public offering of

debt or equity registered under the federal Securities Act of 1933 (15 U.S.C. Section 77a et seq.), or a similar law of a foreign jurisdiction, the commissioner may extend the period of time to approve the conversion plan by an additional 180 days beyond the initial 90-day period specified in Subsection (b).

(g) After giving written notice to the converting exchange, the commissioner may hold a hearing on whether the conversion plan complies with this chapter. The converting exchange has the right to appear at the hearing. Other interested persons have the right to attend the hearing and comment on the conversion plan. Notice of the hearing may be made through publication in the Texas Register in accordance with Section [829.104\(b\)](#).

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.107. APPROVAL OF PLAN BY ELIGIBLE MEMBERS. (a) After notice that complies with this chapter, the converting exchange may convene a meeting to consider the conversion plan, and any eligible member entitled to vote on the proposed conversion plan may vote in person or by proxy at the meeting. Except as otherwise provided in the bylaws of the converting exchange, each eligible member may cast one vote.

(b) Adoption of the conversion plan requires the affirmative vote of at least two-thirds of the votes cast by eligible members.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.108. FILING OF MINUTES, ARTICLES OF INCORPORATION, AND BYLAWS; EFFECTIVE DATE OF CONVERSION. (a) The converting exchange shall file with the commissioner:

(1) the minutes of the meeting at which the plan was approved; and

(2) the articles of incorporation and bylaws of the resulting company and the mutual holding company.

(b) The converting exchange shall make the filing required by Subsection (a) not later than the 30th day after the later of:

(1) the date on which the eligible members approve the conversion plan; or

(2) the date on which the commissioner approves the conversion plan.

(c) The conversion plan approved by the commissioner takes effect on the date specified in the articles of incorporation of the resulting company and the mutual holding company.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

SUBCHAPTER D. EFFECT OF PLAN; RIGHTS OF MEMBERS

Sec. 829.151. CORPORATE EXISTENCE. (a) On the effective date:

(1) the legal existence of the converting exchange continues in the resulting company;

(2) all assets, rights, franchises, and interests of the converting exchange in and to property and any accompanying thing in action are vested in the resulting company without a deed or transfer;

(3) the resulting company assumes all the obligations and liabilities of the converting exchange; and

(4) the power of attorney or other appropriate authorization granting the attorney in fact the authority to act for the subscribers of the converting exchange is terminated.

(b) Except as otherwise specified by the conversion plan:

(1) the directors and officers of the converting exchange serving on the effective date serve as directors and officers of the resulting company until new directors and officers are elected under the articles of incorporation and bylaws of the resulting company; and

(2) the directors of the converting exchange serving on the effective date serve as directors of the mutual holding company until new directors are elected under the articles of incorporation and bylaws of the mutual holding company.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.152. MEMBERSHIP INTERESTS. (a) The membership interests of the policyholders of the resulting company become membership interests in the mutual holding company. Members of the converting exchange become members of the mutual holding company in accordance with the articles of incorporation and bylaws of the mutual holding company.

Text of subsection effective until January 01, 2022

(b) A membership interest in a mutual holding company does not constitute a security as defined by Section 4, The Securities Act (Article 581-4, Vernon's Texas Civil Statutes).

Text of subsection effective on January 01, 2022

(b) A membership interest in a mutual holding company does not constitute a security as defined by Section 4001.068, Government Code.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. 1056), Sec. 1, eff. June 15, 2007.

Amended by:

Acts 2019, 86th Leg., R.S., Ch. 491 (H.B. 4171), Sec. 2.32, eff. January 1, 2022.

Sec. 829.153. RIGHTS OF MEMBERS WHOSE POLICIES ARE ISSUED AFTER ADOPTION OF CONVERSION PLAN BUT BEFORE EFFECTIVE DATE. (a) On issuance of a policy after a conversion plan has been adopted by the board of directors but before the effective date of the conversion plan, the converting exchange shall send to each member to whom a policy is issued a written notice regarding the conversion plan.

(b) Except as provided by Subsection (c), each member insured under a property or casualty insurance policy is entitled to notice under Subsection (a) and shall be advised in a clear and conspicuous manner of the member's right to:

(1) cancel the policy; and

(2) receive a pro rata refund of unearned premiums.

(c) A member who has made or filed a claim under the insurance policy is not entitled to a refund under Subsection

(b). A member who has exercised a right provided by Subsection (b) may not make or file a claim under the insurance policy.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.

Sec. 829.154. EFFECT OF CONVERSION ON POLICIES; SUBSCRIBER ACCOUNTS. (a) Each policy in effect on the effective date remains in effect under the terms of that policy, except that the following rights, to the extent they existed in the converting exchange in favor of policyholders or members, are extinguished on the effective date:

(1) any membership and voting rights;

(2) except as provided by Subsection (b) or in the conversion plan approved by the commissioner, a right to share in the surplus or profits of the converting exchange; and

(3) any assessment provisions.

(b) The holder of a participating policy in effect on the effective date of the conversion continues to have a right to receive dividends as provided by the participating policy.

(c) On the renewal date of a participating policy, the resulting company may issue to the insured a nonparticipating policy as a substitute for the participating policy.

(d) All the costs and expenses connected with a conversion plan shall be paid or reimbursed by the converting exchange or the resulting company.

(e) If a converting exchange maintains subscriber accounts as surplus, the subscriber accounts shall continue as surplus in the resulting company, unless otherwise provided in a conversion plan approved by the commissioner. Subject to Subsection (f), the balances of the subscriber accounts are payable to the members to the extent and in the manner as is provided in the conversion plan.

(f) The board of directors of the resulting company may reduce the balances of the subscriber accounts without payment to members of the mutual holding company who were members of the converting exchange if the board of directors of the resulting company determines in the board's discretion that the amounts are necessary to support the operations of the resulting company. The

board of directors of the resulting company may not, without the approval of the commissioner, reduce the balance of a subscriber account under this subsection before the third anniversary of the effective date.

Added by Acts 2007, 80th Leg., R.S., Ch. 412 (S.B. [1056](#)), Sec. 1, eff. June 15, 2007.